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HALIFAX DEVELOPMENTS LIMITED ANNUAL REPORT 1973



The front cover is an artist's rendering of a proposed two-tower, four-level shopping mall to be situated immediately east of Scotia Square, shown in the background. It will be developed by Durham Leaseholds Limited of which Halifax Developments Limited holds a 50% interest. The project will feature contemporary design and construction while maintaining some of the Architecture of Halifax in the 1800's.

A Development For People



DIRECTORY

BOARD OF DIRECTORS

H. P. Connor	Chairman of the Board, National Sea Products Limited
A. R. Harrington	Business Executive
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J. J. Jodrey	President, Minas Basin Pulp & Power Company Limited
J. H. Mowbray Jones	Chairman of the Board, Hermes Electronics Limited
L. A. Kitz, Q.C.	Senior Partner, Kitz, Matheson, Green & MacIsaac
M. H. D. McAlpine	President, Robert McAlpine Limited
J. T. MacQuarrie	Partner, Stewart, MacKeen & Covert
H. B. Rhude, Q.C.	Lawyer
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F. H. Sobey	Chairman of the Board, Sobeys Stores Limited

OFFICERS

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D. R. Sobey	President
A. R. Harrington	Vice-President
L. A. Kitz	Vice-President
D. B. Hyndman	Vice-President and Secretary
J. M. Doull	Vice-President, Operations
E. D. Fraser	Development Officer

BANK

The Bank of Nova Scotia

SOLICITORS

Kitz, Matheson, Green & MacIsaac;
Stewart, MacKeen & Covert

AUDITORS

H. R. Doane and Company

TRANSFER AGENT AND REGISTRAR

Canada Permanent Trust Company, Halifax, Montreal, Toronto, Calgary

LISTED

Toronto Stock Exchange

HEAD OFFICE

Barrington Tower, Scotia Square, Halifax, Nova Scotia

FINANCIAL HIGHLIGHTS

	1973	1972*
Gross Income	\$ 6,002,023	\$ 5,436,028
Cash Flow	\$ 635,345	\$ 372,141
Per Share, fully diluted	15c	9c
Net Income before Extraordinary Gain	\$ 139,950	\$ 8,118
Per Share, fully diluted	3c	—
Net Income	\$ 389,818	\$ 8,118
Per Share, fully diluted	9c	—
Average Shares Outstanding	4,128,135	3,654,944
Paid in Capital and Retained Earnings	\$ 7,970,242	\$ 6,872,448
Book Value Per Share December 31	\$ 1.89	\$ 1.76

*See Note 8 to the Financial Statements

REPORT TO SHAREHOLDERS

The 1973 statement of Halifax Developments Limited shows our continuing pattern of growth. Revenue rose to \$6,002,023, an increase of 10 per cent over 1972. Cash flow was \$635,345, or 15c per share, a substantial increase over the 1972 figure of \$372,141. Net income after depreciation was \$389,818, or 9c per share.

During the past year Halifax Developments Limited took steps to increase its real estate activity beyond Scotia Square. Your Company purchased a 50 per cent interest in Durham Leaseholds Limited which owns and operates the Royal Bank Building, one of the major office buildings in downtown Halifax.

The agreement with Durham included the sale of certain Halifax Developments Limited land holdings which resulted in an extraordinary gain in the form of a development fee. Since Durham Leaseholds Limited is a joint venture company, only one-half of the development fee is included in income; the other half has been applied to reduce the cost of this investment.

Halifax Developments Limited's partner in Durham is the Oxford Development Group, another large Canadian real estate company with head offices in Edmonton, Alberta. Through the medium of Durham, other developments are under active negotiation.

The repayment of a loan of \$5.0 million (U.S.) resulted in an additional extraordinary gain. In September your Company drew down \$6.5 million from Metropolitan Life Insurance Company as an extension of their first mortgage charge on Scotia Square. This enabled the Company to repay a medium term bank loan against the Barrington Tower and to retire approximately \$1.5 million in current working capital loans.

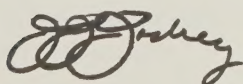
Scotia Square continues to grow. Chateau Halifax, the CP operated hotel, opened in January, 1974, and MacKeen Towers, an apartment building, will be ready for occupancy in October of this year. Shortly thereafter, Cogswell Tower, our newest office building, will open. These significant additions will generate increased sales in the shopping malls and add to the Company's income through percentage rentals.

In 1975, the first of the original leases in the Duke Tower will expire. As these leases are renewed, higher rentals are anticipated.

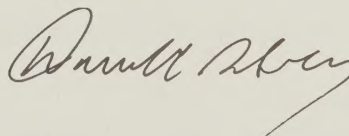
Chateau Halifax is an outstanding addition to Scotia Square and, while it has been receiving guests only for a short period, the increased activity it has generated is already noticeable throughout the complex.

On behalf of the Shareholders and the Board of Directors, we wish to express our appreciation to the officers and employees of the Company for their efforts during the past year.

Chairman

A handwritten signature in dark ink, appearing to be "J. J. [unclear]".

President

A handwritten signature in dark ink, appearing to be "Donald [unclear]".

OPERATIONS

It is recognized that Scotia Square has brought new life to downtown Halifax, the largest city in Atlantic Canada. The project is approaching completion and will then consist of just under three million square feet of buildings, comprised of shopping malls, office towers, hotel, apartments, the Trade Mart and parkade.

Shopping Mall

The two level Shopping Mall consists of 350,000 square feet of retail stores. The magnitude of this retail area in a City the size of Halifax can be brought into perspective when one considers that the retail area in Place Ville Marie in Montreal is 176,000 square feet, and in Toronto, the Toronto-Dominion Centre includes 136,000 square feet of retail stores.

Occupancy in the Shopping Malls is now close to 100 per cent. More than 100 stores, kiosks and boutiques are open for business, making it truly one of Canada's great places to shop. In the fiscal year 1973, retail sales were 17 per cent higher than in 1972, and the recent opening of Chateau Halifax has stimulated sales in the Malls. Moreover, as other projects near completion, not only in Scotia Square, but in the adjoining developments of Durham Leaseholds Limited, the retail operations at the heart of the complex are bound to show increased activity.

Office Buildings

Both the Duke and Barrington Towers are close to 100 per cent occupancy. These buildings contain 380,000 square feet of office space. A large part of this space is occupied by leading local and national firms and the full tenancy of these buildings amply demonstrates the need for additional prime office space in Halifax.

Another office building, the Cogswell Tower, will be ready for occupation early in 1975. When completed this building of just under 200,000 square feet will bring the total office accommodation in Scotia Square to 580,000 square feet.

Trade Mart

The Trade Mart was completed in 1967 and contains 55,000 square feet of office and display area and a further 234,000 square feet of warehousing. The 10,000 square foot Exhibition Hall on the main floor of the building has recently been converted to office accommodation with increased revenue. A pedestrian skyway is now under construction to link the Trade Mart to the main complex of Scotia Square.

Apartment Buildings

The original concept of Scotia Square included residential apartment buildings to complement the Shopping Malls and Office Towers. Scotia Towers opened in 1972 and consisted of 190 units. This was the first downtown apartment building and initial acceptance was slow. A number of the apartments have been converted into furnished units for short-term rentals which has proven very successful. Scotia Towers is now fully leased and occupied.

A second tower containing 100 luxury apartments will be ready for occupancy in the fall of 1974. In memory of the late J. C. MacKeen, former Chairman of the Board, who did so much to guide and foster our initial development, it is being called MacKeen Towers.

Parking

Scotia Square has one of the greatest parking facilities in any downtown development in Canada. There are 2,000 parking spaces throughout the complex, of which approximately 1,600 are in the main pad contiguous to the office towers and the shopping mall.

Scotia Square Hotel Limited

Chateau Halifax was formally opened on the 29th of January, 1974. The Hotel is owned by Scotia Square Hotel Limited, another 50 per cent joint venture. Our partner in this company is CP Hotels Limited, who operate hotels across Canada and in many foreign countries.

The Hotel is an eight storey building and from its strategic location offers a splendid view of Halifax Harbour. Two lower wings adjoin the main structure and surround a heated swimming pool and garden.

Durham Leaseholds Limited

Durham will be the future outside development arm of Halifax Developments Limited on lands apart from Scotia Square property.

Last year Halifax Developments Limited sold its equity in lands lying to the east of Scotia Square which were then being held for development and a few months ago Durham announced a \$30 million project on these sites. It is an exciting design and consists of three stages; (i) the Canadian Imperial Bank of Commerce Tower with approximately 240,000 square feet of office space with a target of commencement of construction in September of this year; (ii) a shopping mall on the east side of Barrington Street integrated to Scotia Square by means of a pedestrian skyway running from the centre of the Fountain Court in Scotia Square across Barrington Street into this new complex. The Granville/Barrington Street development plans to retain the historically important facades of the 19th Century commercial structures which front on Granville Street; (iii) another office tower is planned to be erected to the north of this project.

As well as this ambitious proposal Durham is considering other developments within the City of Halifax and elsewhere in Atlantic Canada.

On Behalf of the Board

Director

Director

The accompanying notes form part of this statement.

MENTS LIMITED

Sheet

LIABILITIES	December 31	
	1973	1972
Bank loans	\$ 2,074,435	\$ 3,603,004
Payables and accruals	582,095	607,379
Construction accounts payable	262,542	24,069
Unrealized gain on foreign exchange		151,025
Long-term debt (Note 4)	27,860,039	26,956,957
	30,779,111	31,342,434
SHAREHOLDERS' EQUITY		
Capital stock (Note 6)		
Authorized — 5,000,000 common shares without nominal or par value		
Issued and outstanding — 4,209,305 shares	7,700,493	6,992,517
Retained earnings (deficit)	269,749	(120,069)
	7,970,242	6,872,448
	\$38,749,353	\$38,214,882

AUDITORS' REPORT

To the Shareholders of Halifax Developments Limited

We have examined the balance sheet of Halifax Developments Limited as at December 1973 and the statements of income and retained earnings and source and application of cash and cash flow for the year then ended, and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion and according to the best of our information and the explanations given to us and as shown by the books of the company, these financial statements are properly drawn up so as to exhibit a true and correct view of the financial position of the company as at December 31, 1973 and the results of its operations and the source and application of its cash for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

H. R. Doane and Company
Chartered Accountants

Halifax, Nova Scotia
February 18, 1974

STATEMENT OF INCOME

	December 31	
	1973	1972
Gross income	\$6,002,023	\$5,436,028
Operating expenses	3,120,444	2,753,627
	2,881,579	2,682,401
Net interest on debt	2,379,933	2,275,685
	501,646	406,716
Depreciation	353,183	333,119
Net loss on guarantee of tenant's loan		34,575
Amortization of bond discount and expense	43,369	30,904
	396,552	398,598
	105,094	8,118
Investment income (Note 2)	34,856	
Net income from operations	139,950	8,118
Extraordinary income (Note 7)	249,868	
Net income	\$ 389,818	\$ 8,118
Earnings per share (Note 5)		
Net income from operations	\$.03	—
Extraordinary income	\$.06	—
Net income	\$.09	—

STATEMENT OF CASH FLOW

	December 31	
	1973	1972
Net income	\$ 389,818	\$ 8,118
Non-cash charges		
Depreciation	353,183	333,119
Amortization	43,369	30,904
	396,552	364,023
	786,370	372,141
Non-cash credits		
Foreign exchange gain	151,025	
Cash flow	\$ 635,345	\$ 372,141
Cash flow per share, fully diluted	\$.15	\$.09

STATEMENT OF SOURCE & APPLICATION OF CASH

	December 31	
	1973	1972
Source		
Operations		
Net income	\$ 389,818	\$ 8,118
Non-cash charges — depreciation	353,183	333,119
— amortization	43,369	30,904
	<hr/>	<hr/>
	786,370	372,141
Non-cash credit — foreign exchange gain	151,025	
	<hr/>	<hr/>
	635,345	372,141
Net proceeds from sale of property	636,719	
Issue of mortgage bonds	6,500,000	
Issue of capital stock (including debentures converted to shares)	716,725	2,590,890
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	8,488,789	2,963,031
	<hr/>	<hr/>
Application		
Investment in and advances to affiliated companies	215,360	1,118,540
Cost of buildings and construction in progress	1,543,275	438,911
Debentures converted to shares	520,262	
Decrease in bank loans	912,336	(423,545)
Refinancing of long-term debt	5,027,128	
Repayment of long-term debt	358,938	242,567
Net (decrease) increase in current receivables and prepaid taxes over current payables	(63,334)	1,513,813
	<hr/>	<hr/>
	8,513,965	2,890,286
	<hr/>	<hr/>
Excess of cash provided over cash expended	(25,176)	72,745
Cash, beginning of period	30,148	(42,597)
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Cash, end of period	\$ 4,972	\$ 30,148

STATEMENT OF RETAINED EARNINGS (DEFICIT)

	December 31	
	1973	1972
Retained earnings (deficit), January 1		
As previously reported	\$(274,383)	\$(128,187)
Prior period adjustment (Note 8)	154,314	
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As restated	(120,069)	(128,187)
Net income	389,818	8,118
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Retained earnings (deficit), December 31	\$ 269,749	\$(120,069)

NOTES TO FINANCIAL STATEMENTS

1. (a) The company is a member of the Canadian Institute of Public Real Estate Companies. The company's accounting policies and its standards of financial disclosure are in accordance with the recommendations of that Institute and the Canadian Institute of Chartered Accountants in all material respects.
- (b) The procedure of capitalizing expenses (net of revenues) is followed in relation to construction in progress. This amounted to \$82,094 for the year ended December 31, 1973 (1972-\$162,000).
- (c) The sinking fund method of depreciation is used in computing depreciation charges applicable to buildings. Accordingly, depreciation has been computed on the basis of an amount which, compounded annually at a rate of 5%, will amortize the cost of the buildings over forty years. Under this method, depreciation charged to income will increase each year and in the fortieth year will have increased to approximately seven times the amount charged in the first year.
- (d) Bond discount and expense is being amortized on a straight-line basis over the life of the respective bonds.

2. Investments in and advances to affiliated companies	
Shares in Halifax Parking Limited (30% interest)	\$ 30
Notes receivable from Halifax Parking Limited	25,000
Shares in Scotia Square Hotel Limited (50% interest)	2,500
Advances to Scotia Square Hotel Limited	1,187,070
Shares in Durham Leaseholds Limited (50% interest)	27,300
Notes receivable from Durham Leaseholds Limited	112,500
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	\$1,354,400
	<hr/>

SCOTIA SQUARE HOTEL LIMITED

The Company owns 50% of the shares of Scotia Square Hotel Limited which company is a joint venture with Canadian Pacific Hotels Limited to own and operate the hotel in the Scotia Square complex known as Chateau Halifax.

DURHAM LEASEHOLDS LIMITED

In April, the company purchased from the Oxford Development Group Ltd., a 50% interest in Durham Leaseholds Limited which owns and operates the Royal Bank Building in Halifax. Durham will be the vehicle used for joint ventures throughout the Atlantic Provinces by Halifax Developments Limited and the Oxford Development Group Ltd.

The cost of the company's investment in the common stock of Durham Leaseholds Limited was \$401,944 which cost has been allocated as to shares \$150 and as to building \$401,794. The investment is accounted for on the equity basis and the company's share of income for the nine month period ended December 31, 1973 is \$27,150. This amount is included in investment income together with \$7,706 interest income on a note receivable from Durham Leaseholds Limited.

The company's share of the cash flow of Durham Leaseholds Limited for the same period is \$67,401.

3. Land, buildings and equipment

		1973		1972
Land		\$ 1,483,614		\$ 1,483,614
Buildings and equipment	\$34,172,141		\$33,159,066	
Less: Accumulated depreciation (Note 1c)	1,147,858	33,024,283	794,676	32,364,390
Property acquired for future development		161,271		1,104,813
Construction in progress (Note 1b)		1,263,363		733,164
		<hr/>		<hr/>
		\$35,932,531		\$35,685,981
		<hr/>		<hr/>

The company is constructing and developing a complex known as Scotia Square comprising shopping malls, office and apartment buildings and a hotel located on approximately 19 acres of land in the City of Halifax. A construction programme has been prepared by the company dividing the entire project into ten stages extending over a period from October 15, 1966 to December 31, 1975. The cost of the entire project is currently estimated to be approximately \$65,000,000 including land, consultants' fees, preliminary expenses and other costs and including interest on borrowed money during the preliminary and construction periods.

Construction of Stages I-VI has been completed. These stages have been placed on an operating basis commencing on the following dates.

- Stage I — Trade Mart — May 1, 1968
- Stage II — Shopping Malls and Parking Garage — April 1, 1970
- Stage III — Duke Tower — April 1, 1970
- Stage IV — Chateau Halifax — January 29, 1974
- Stage V — Scotia Tower — October 1, 1971
- Stage VI — Barrington Tower — October 1, 1971

Construction of Stages VII and VIII (designated respectively, the Cogswell Tower and MacKeen Tower) has begun with completion expected in late 1974.

4. Long-term debt	1973	1972
8% First Mortgage Bonds, First Series, due April 1, 1996 repayable in level monthly installments of \$91,585 principal and interest.	\$11,526,933	\$11,710,870
Additional interest calculated at 4 1/4% of gross annual rentals from specifically mortgaged premises, is payable at not less than \$100,000 nor more than \$150,000 in any one fiscal year of the Company. (For the 1973 fiscal year the foregoing additional interest is applicable to the period September to December 1973; prior to that time additional interest was calculated at 3 1/4% of gross annual rentals from specifically mortgaged premises, payable at not less than \$60,000 nor more than \$110,000 in any one fiscal year and applicable to the period January to August, 1973).		
9 1/8% First Mortgage Bonds, Second Series, due October 1, 1988 repayable in level monthly installments of \$52,095 principal and interest.	6,491,026	nil
8 1/4% First Mortgage loan repayable in level monthly installments of \$17,533 principal and interest to July 1, 1993.	2,061,154	2,102,513
9% First Mortgage loan repayable, in level monthly installments of \$22,436 principal and interest to April 1, 2000.	2,738,693	2,764,736
8% General Mortgage Sinking Fund Bonds, Series A, due August 1, 1993. Sinking fund payments commencing in 1973.	\$2,935,000	\$3,000,000
8% General Mortgage Sinking Fund Bonds, Series B, due December 31, 1994. Sinking fund payments to commence in 1974. During 1973 the company made advance redemptions of \$20,000.	980,000	1,000,000
8% Convertible Subordinated Income Debentures, Series B, due August 16, 1993.	nil	12,500
During the year \$12,500 of Series B debentures were converted to 5,000 common shares. Debentures may be converted into common shares of the company on the basis of 400 shares for every \$1,000 up to May 6, 1978 and 285 shares for every \$1,000 principal after May 16, 1978 to August 16, 1993.		
Convertible subordinated debentures, Series D, due August 16, 1993.	511,000	1,031,600
During the year \$520,600 of Series D debentures were converted to 208,240 common shares. Debentures may be converted into common shares of the company on the basis of 400 shares for every \$1,000 up to May 6, 1978 and 285 shares for every \$1,000 principal after May 16, 1978 to August 16, 1993.		
Bank loan due September 1974 secured by a first mortgage on the Barrington Tower. Interest fluctuates with New York prime lending rate. (U.S. \$4,967,000)		5,027,915
Mortgages on properties acquired for future development		306,823
Bank loan due September 30, 1977 on the Cogswell Tower construction in progress.	368,000	
Bank loan due April 30, 1976 on the MacKeen Tower construction in progress.	248,233	
	\$27,860,039	\$26,956,957

Estimated principal and sinking fund payments during the next five fiscal years are as follows:

1974 \$378,000; 1975 \$403,000; 1976 \$430,000;
1977 \$459,000; 1978 \$490,000.

5. Per share calculation
Earnings per share were calculated using the weighted average number of shares outstanding for the year.

6. Capital stock

	Number of Shares	Per Share	Amount
Balance, December 31, 1972	3,915,315	\$1.85	\$7,261,800
Issued upon conversion of convertible subordinated debentures, Series D, to stock at the rate of 400 shares for every \$1,000 principal	208,240	2.50	520,600
Issued upon conversion of convertible subordinated income debentures, Series B, to stock at the rate of 400 shares for every \$1,000 principal.	5,000	2.50	12,500
Issued for cash in connection with exercise of share options.	25,000	1.00	25,000
	30,000	2.90	87,000
	14,500	3.00	43,500
	11,250	2.50	28,125
	4,209,305		7,978,525
Issue expenses (A)			278,032
	4,209,305		\$7,700,493

(A) Expenses relating to capital stock issues in previous years have been charged to capital. The presentation for 1972 has been restated.

Of options granted in 1970, the following remain outstanding:

	Number of Shares	Exercise Price per shares	Expiry Date
	24,500	\$3.00	December 31, 1974

A further 204,400 common shares have been reserved for the conversion of convertible subordinated debentures, Series D.

7. Extraordinary items	
Development fees	\$ 98,056
Gain on foreign exchange	151,812
	\$249,868

8. Prior period adjustment

Recoveries from tenants for expense escalations relating to 1972 were calculated and billed to tenants in 1973. The gross revenues and operating results for 1972 have been restated to give effect to these recoveries. Expense escalation recoveries for 1973 have been included in gross revenues and operating results for 1973.

9. Contingent liabilities

- Scotia Square Hotel Limited has undertaken the construction and operation of Chateau Halifax and it is intended the total financing would be undertaken by that company. Halifax Developments Limited and Canadian Pacific Hotels Limited, as shareholders have signed a deficiency agreement to provide funds if so requested by Scotia Square Hotel Limited.
- The company has a contingent liability of \$750,000 relating to the guarantee of bank loans of Durham Leaseholds Limited.

DURHAM LEASEHOLDS LIMITED
ROYAL BANK BUILDING



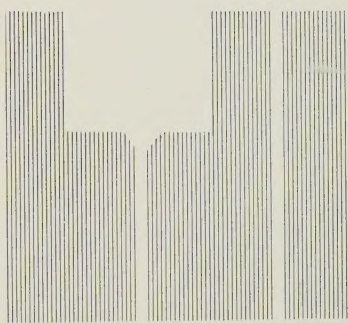
New Vistas Through Joint Ventures



CHATEAU HALIFAX HOTEL



NEW DEVELOPMENT CORNER
OF BARRINGTON AND DUKE STREETS



HALIFAX
DEVELOPMENTS
LIMITED

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